# EXECUTIVE SUMMARY

## Enhancing Resilience amid Uncertainty

The October 2024 *Global Financial Stability Report* highlighted stretched asset valuations, growing financial system leverage, and low financial market volatility against a backdrop of heightened levels of economic uncertainty (Figure ES.1). Such fragilities can amplify shocks and trigger abrupt tightening of financial conditions, exacerbating economic downturns with potentially sizable additional economic costs.

A sharp repricing of risk assets followed the series of tariff announcements by the United States since February and accelerated following the April 2 release of plans for larger-than-expected tariffs. Financial market volatility across stock, currency, and bond markets rose markedly. The response by other countries further amplified uncertainties.

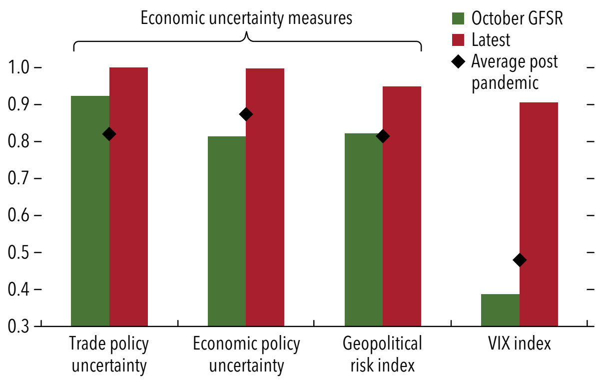
Against the heightened volatility of asset prices, this *Global Financial Stability Report* assesses that global financial stability risks have increased significantly, primarily due to the tightening of global financial conditions (Figure ES.2). According to the IMF's Growth-at-Risk model, macrofinancial downside risks to growth have increased meaningfully.

Our assessment of elevated financial stability risks is also supported by three key forward-looking vulnerabilities. First, despite the recent turmoil in markets, valuations remain high in some key segments of equity and corporate bond markets, meaning that readjustments in valuations could go further if the outlook were to deteriorate. Economic policy uncertainty remains high, and some macroeconomic indicators have surprised to the downside (see the April 2025 *World Economic Outlook*), making corrections of asset prices more likely.

Downside asset price moves could significantly impact emerging markets. Their currencies and stock prices have already depreciated due to weakening growth prospects. With investors increasingly expecting emerging market central banks to ease, the expected carry trade returns have fallen, raising the likelihood

The assessments and analyses in this GFSR are based on financial market data available to IMF staff through April 15, 2025, but may not reflect published data by that date in all cases.

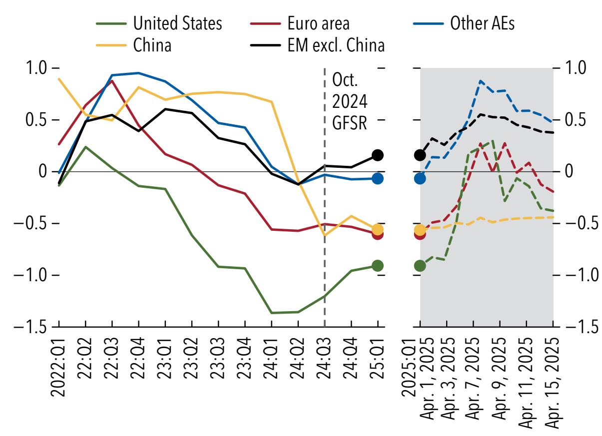
**Figure ES.1. Economic Uncertainty and Financial Volatility**
*(Percentile)*




Sources: Bloomberg Finance L.P.; Baker, Bloom, and Davis 2016; Caldara and Iacoviello 2022; and IMF staff calculations.

Note: "Economic policy uncertainty" and "trade policy uncertainty" are the indices of Baker, Bloom, and Davis (2016); "geopolitical risk" is the index of Caldara and Iacoviello (2022). The series are shown in percentiles since 1997 based on monthly data; "Average Post Pandemic" is the average percentile since 2022. Economic uncertainty measures are text based. Latest level for VIX Index is as of April 15, 2025. VIX = Chicago Board Options Exchange Volatility Index.

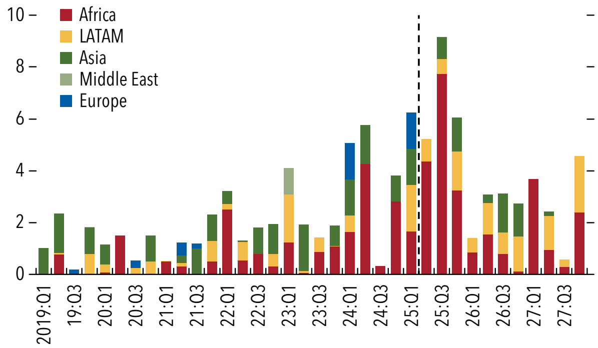
**Figure ES.2. Financial Conditions Index**
*(Number of standard deviations over long-term averages)*




Sources: Bloomberg Finance L.P.; and IMF staff calculations.

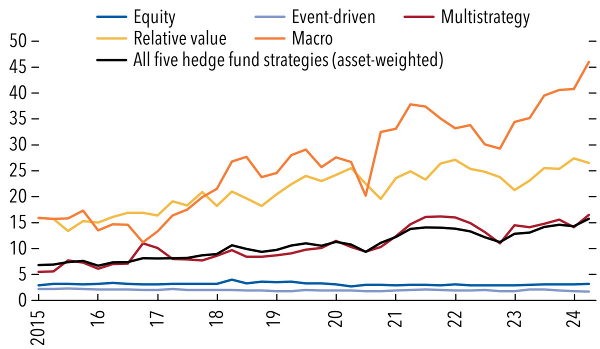
Note: The IMF FCI is designed to capture the pricing of risk. It incorporates various pricing indicators, including real house prices. Balance sheet or credit growth metrics are not included. For details, see Online Annex 1.1 in the October 2018 *Global Financial Stability Report*. The shaded area on the right side shows the daily FCIs starting April 1, 2025. These daily FCIs are approximate values estimated using the available high-frequency market data, while the long-term standard deviations and averages are calculated over 1990:Q1 and 2025:Q1. GFSR = *Global Financial Stability Report*; AEs = advanced economies; EM = emerging markets; excl. = excluding.

**Figure ES.3. Upcoming International Maturing Debt of Frontier Economies**
*(Billions of dollars)*



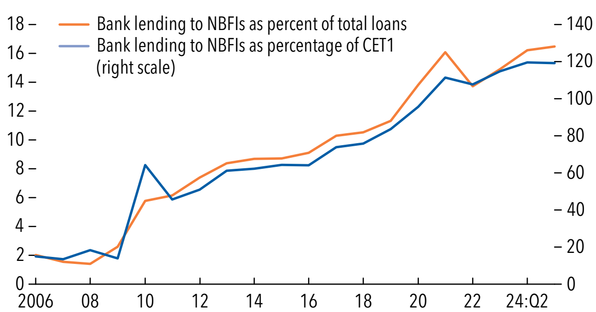

Sources: Bloomberg Finance L.P.; Bond Radar; and IMF staff estimates.
Note: Frontier economies are defined as countries with hard currency debt included in the J.P. Morgan Next Generation Emerging Market (NEXGEM) index. LATAM = Latin America.

**Figure ES.5. Ratio of Gross Notional Exposure to Net Asset Value**



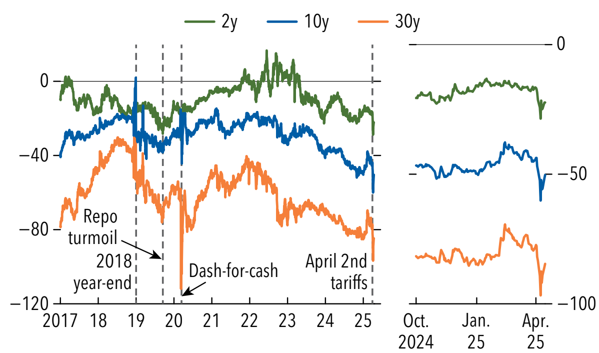

Sources: US Securities and Exchange Commission; and IMF staff calculations.
Note: The asset-weighted ratio depicted in the black line is calculated using the assets under management of hedge fund strategies in panel 1 of Figure 1.12 in Chapter 1 of this report.

**Figure ES.4. US Bank Credit Issued to Nonbank Financial Intermediaries**
*(Percent of term loans and commitments, left scale; percent of shareholder's equity, right scale)*




Sources: Federal Reserve, Consolidated Financial Statements for Holding Companies (Form Y-9C); and US Securities and Exchange Commission, Office of Financial Research, aggregation of data from Form PF.
Note: The figure refers to credit provided by bank holding companies. Credit includes loans and credit commitments but excludes derivatives. CET1 = Common Equity Tier 1 capital; NBFI = nonbank financial intermediary.

**Figure ES.6. Swap Rates Minus Treasury Bond Yields**
*(Basis points)*




Sources: Bloomberg Finance L.P.; and IMF staff calculations.
Note: Swap spreads reflect the difference between swap rates and Treasury yields of the same maturity. Secured overnight financing swap rates are extended historically using adjusted legacy swap interbank offered rates with a basis adjustment applied to account for differences between secured overnight and term interbank benchmarks.

of capital outflows. In frontier economies, although market conditions had been improving, high levels of yields could expose countries to refinancing risks in an environment where sizable amounts of debt are coming due (Figure ES.3).

Second, some financial institutions could come under strain in volatile markets, especially highly leveraged ones. As the hedge fund and asset management sectors grew, so have their aggregate leverage levels and the nexus with the banking sector from which they borrow (Figure ES.4), raising the specter of weakly managed nonbank financial intermediaries being pushed to deleverage when they face margin calls and redemptions. Some hedge fund strategies have seen a steady increase of leverage recently (Figure ES.5), potentially exacerbating sell-offs, with implications for the broader financial system.

Third, further turbulence could descend upon sovereign bond markets, especially in jurisdictions where government debt levels are high. For instance, popular leveraged cash-futures basis trades in core sovereign bond markets and leveraged carry trades in swap markets could unwind and challenge market liquidity (Figure ES.6). Emerging market economies already facing the highest real financing costs in a decade may now need to refinance their debt and fund fiscal spending at higher costs (see the April 2025 *Fiscal Monitor*). Overall, investor concerns about public debt sustainability and other fragilities in the financial sector can worsen in a mutually reinforcing fashion.

Heightened policy uncertainty may also impact corporates and households. Global corporate bond spreads have widened recently, reflecting investors' concerns over adverse impacts of an economic slowdown on corporate earnings in coming quarters. In addition, a decent share of soon-maturing corporate debt carries fixed rates below the prevailing market yield, and an increase in credit spread could challenge the refinancing of weaker firms' debt. A sharp repricing in equities and other asset prices may impact household balance sheets through wealth effects, particularly as many of them now allocate a larger portion of their financial assets to equities and investment funds than they did before the pandemic. Finally, weaker-than-expected commercial real estate values and still-high interest rates may further complicate loan refinancing efforts, particularly for properties with negative equity.

One main trigger of further sell-offs could be geopolitical risk. Chapter 2 analyzes how major geopolitical risk events, especially military conflicts, can lead to substantial declines in stock prices and increases in sovereign risk premiums, particularly in countries with limited fiscal and international reserve buffers. Geopolitical risk events can also have cross-border spillover effects because of trade or financial linkages.

## Policy Recommendations

The policy toolkit for mitigating financial stability risks includes policies for market infrastructures and exchanges that ensure market functioning, the prudential supervision and regulation of financial institutions, and emergency liquidity and crisis resolution tools. Mitigating financial vulnerabilities and preparedness for crisis management are key to containing the potential adverse impact of financial sector developments on macroeconomic outcomes. History has shown time and time again that financial crises entail significant and persistent macro downside costs.

The possibilities of further correction of asset prices amid heightened uncertainty, potential strains impacting highly leveraged financial institutions, and turbulence in core sovereign bond markets elevate financial stability risks. Authorities should prepare to deal with financial instability by ensuring that financial institutions are ready to access central bank liquidity facilities and by being prepared to intervene to address severe liquidity or market function stress, especially in core bond and funding markets. Liquidity can be provided to nonbanks with appropriate guardrails (Chapter 2 of April 2023 *Global Financial Stability Report*).

To address potential financial stability risks arising from geopolitical risks, financial institutions and their oversight bodies should allocate adequate resources for scenario analysis and stress testing to identify, quantify, and manage geopolitical risks (see Chapter 2). Emerging market and developing economies should continue efforts to deepen financial markets and maintain adequate fiscal policy space and international reserves to cushion against adverse geopolitical shocks.

Given high levels of leverage in the financial system and growing interconnectedness between nonbank financial intermediaries and banks, sufficient levels of capital and liquidity in the banking sector remain the anchor of global financial stability. Full, timely, and consistent implementation of Basel III and other international standards remains key and should be complemented by independent and intensive supervision. The deepening nexus between banks and nonbank financial intermediaries also calls for supervisors to enhance the risk assessment of such linkages.

It is crucial to strengthen policies that mitigate nonbank leverage and other vulnerabilities. Enhanced nonbank reporting requirements could help supervisors develop a systemwide and cross-sectoral perspective of risks and distinguish poorly governed and excessive risk-taking institutions from those that contribute more positively to financial intermediation.

Elevated economic uncertainty and financial market volatility underscore the need to strengthen the prudential policy frameworks, including micro- and macroprudential approaches. Countries with insufficient buffers should tighten macroprudential tools to increase resilience while avoiding a broad tightening of financial conditions. Where a downturn in activity is leading to financial stress, macroprudential buffers could be released to help banks absorb losses and support the provision of credit to the economy.

High and rising debt in most countries makes the rebuilding of credibly and growth-friendly buffers imperative. Where opportunities arise, countries should proactively explore liability management operations to manage refinancing risks and reduce or smooth debt servicing profiles. For countries where debt is at risk of becoming unsustainable, early contact with creditors to coordinate an orderly and efficient debt treatment that restores debt sustainability could help avert costly defaults and prolonged loss of market access.

To address risks from the potential wide adoption of crypto assets, jurisdictions should safeguard monetary sovereignty and strengthen monetary policy frameworks, guard against excessive volatility in capital flows, and adopt unambiguous tax treatment of crypto assets, following the IMF and Financial Stability Board road map for building institutional capacity.

The growing interconnectedness across jurisdictions means that stress emanating from specific jurisdictions can have a global impact, calling for other regions to be prepared. This highlights the crucial role of both multilateral surveillance and the global financial safety net for swift and effective mitigation of financial risks.